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25 YEAR
RE-REVIEW

CONFIDENTIAL

Current Support Brief

COMMUNIST CHINA
TO CONCLUDE "BUY NOW -- PAY LATER" CONTRACT
WITH JAPAN



CIA/RR CB 63-67

16 August 1963

CENTRAL INTELLIGENCE AGENCY
Office of Research and Reports

25 YEAR RE-REVIEW

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COMMUNIST CHINA
TO CONCLUDE "BUY NOW -- PAY LATER" CONTRACT
WITH JAPAN

[REDACTED] Communist China and the Kurashiki Rayon Co., Ltd. of Japan concluded a contract early in July for delivery to Communist China of a \$20 million vinylon synthetic fiber plant. Approval by the Japanese government of the financial terms for this transaction is expected shortly, [REDACTED]

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[REDACTED] This plant, plus a similar installation for which negotiations are underway, will increase China's capacity for production of chemical fibers by about two-thirds and should lessen the present necessity to import large quantities of chemical fibers. Terms of payment are believed to be 25 percent down at the time the contract is signed, with the balance to be paid over a 5-year period, beginning at the time of shipment. [REDACTED]

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[REDACTED] The contract also could be a forerunner of "buy now -- pay later" agreements that would aid China in acquiring plants more readily with less initial expenditure of foreign exchange and possibly in manufacturing exportable products with which to acquire foreign exchange.

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1. Contract Negotiations and Terms

Negotiations for a vinylon fiber plant began in September 1962 when representatives of the Kurashiki Rayon Co., Ltd. of Japan visited Chinese trade officials in Peking and were concluded on 16 July 1963. 1/ [REDACTED]

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Preliminary negotiations also are underway for China to purchase a second vinylon plant from the Dai Nippon Spinning Co. of Japan.

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2. Vynylon and the Chinese Chemical Fiber Industry

Vynylon, currently produced in significant quantities only in Japan, is a synthetic fiber manufactured from polyvinyl alcohol. The texture and nature of the fiber make it a ready substitute for cotton, a commodity that is in continuing short supply in China.

China currently is believed to have an installed production capacity of only about 40,000 metric tons of chemical fiber per year. Because of this small capacity, China imports several thousand tons of chemical fibers each year, principally from Japan, Italy, and the UK.

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The largest share of the chemical fiber textiles was made from rayon, but the percentage of the imports made with polyester, nylon, acrylic, and vynylon fibers has been on the increase. The two vynylon plants will increase China's chemical fiber production capacity by about two-thirds

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3. Importance of the Contract

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The contract for the vinylon plant is not overly important in itself to China's economic development, but the approval of the credit terms by the Japanese government represents a willingness of non-Bloc countries to extend medium-term credits to finance the sales of complete plants. Such "buy now -- pay later" agreements could ease China's balance-of-payments pressure and enhance its ability to buy more industrial equipment with the same expenditure of current resources. An example of such plant acquisitions would be the second vinylon plant, for which preliminary negotiations have already been completed. China's foreign exchange position, however, enforces limitations on how much equipment can be purchased. Furthermore, China has not yet indicated a readiness to make "wholesale" purchases of industrial plants from the Free World.

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